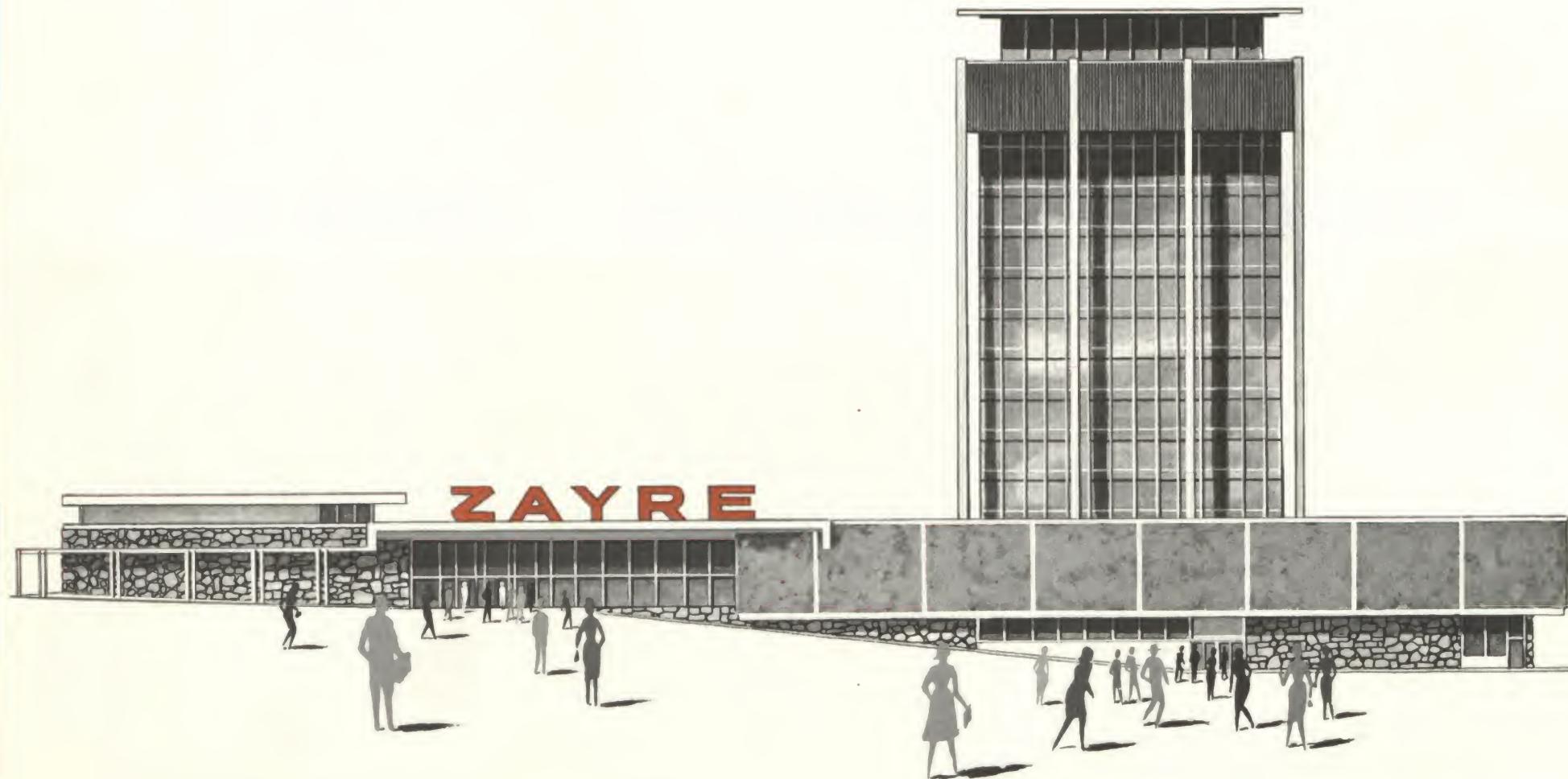


ZAYRE CORP.

ANNUAL REPORT

1963





Abram Berkowitz

Burton S. Stern

Stanley H. Feldberg

Morris Feldberg

Max Feldberg

Sumner Feldberg

Milton Levy

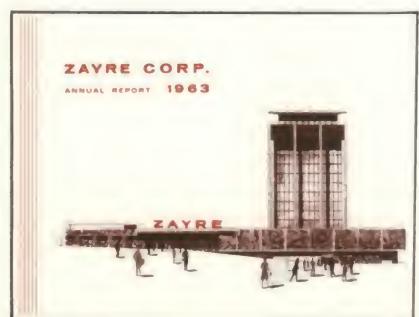
Newton A. Lane

Morris Natelson

THE BOARD OF DIRECTORS - ZAYRE CORP.

THE COVER

Shown is an artist's rendition of the Zayre store to be opened in Chattanooga, Tennessee in the latter half of 1964. It is part of an urban renewal complex situated adjacent to the downtown shopping area and astride the new inter-state highway system serving Chattanooga. Part of the gross area of 125,000 square feet will be occupied by a regional food chain for a supermarket operation. The Golden Gateway office building is in the background.



TO OUR SHAREHOLDERS:

Zayre Corp. passed a major milestone in the 1964 fiscal year which ended January 25, 1964, when sales for the first time exceeded one hundred million dollars.

In the course of the past six years, your company has successfully pursued a planned program of accelerated growth, which has enabled us to virtually double our sales volume every two years. This growth has given Zayre Corp. a major position in the dynamic new discount department store field, and a much enlarged sales base upon which significant profits are to be realized.

SALES AND EARNINGS

Sales (excluding those of leased departments) increased to a record high of \$122,810,651, an increase of \$26,379,040, or 27.4%, over \$96,431,611 last year.

Net income was \$1,222,879, equivalent to 73¢ per share, based on the 1,681,500 shares outstanding at year end. In the prior year net income (as adjusted) was \$1,374,494 or 82¢ per share, on the same number of shares.

Reflecting as they did the costs of rapid growth, earnings approximated management's earlier projections, but were substantially less than what we would normally deem appropriate on this volume of business. Earnings also give effect to charges for depreciation and amortization amounting to \$1,995,303 as compared with \$1,452,788 last year.

MARKET CHARACTERISTICS

In 1961 and 1962 a vast number of new stores were opened in the self service department store field. The result was a sharp increase in competitive conditions in almost all markets, which adversely affected our fiscal 1964 net income. Overexpansion, a common problem in the early stages of most growth industries, brought about a "shakeout" which ran its course during 1963, and resulted in the elimination of many marginal operators.

The continuing growth of consumer demand for self-service department store retailing has now begun to absorb, on an industrywide basis, the very large amount of additional retail space opened in late 1962. This is especially true since a smaller amount of new store space is now being created. Since early 1963 it has been the large chain operators who have opened the bulk of the new stores and, in general, their expansion programs have tended to be more selective than what has prevailed in the past.

OPERATING PROGRESS

The two new distribution centers (Framingham, Mass., which opened in late 1962 and New York City which opened in March 1963) were planned to service not only our 1963 volume requirements, but those of several years to come. Expenses for these facilities in fiscal 1964, their first full year of operation, were significantly higher than those of the smaller facilities they replaced. The centers are giving us the improved flow of merchandise for which they were designed. Now in their second full year of operation, the rising volume handled by these centers is enabling us to realize proportionate reductions in the unit handling costs of merchandise.

As we have noted before, it has been our experience that new discount department stores do not approach their full profit potential until their second or third full year of operation. Our earnings were affected by the fact that during fiscal 1964 over half of our Zayre stores were in some part of their first year's operation; this includes 14 new stores opened in 1963 as well as the 21 units opened in the prior year.

Having now established a satisfactory volume base, we anticipate that our growth from stores opened in future years, while significant in total additional dollars of volume, will represent a smaller percentage of the total sales. Thus, in succeeding years, the more mature stores will represent a substantially higher proportion of total volume.

The extensive computer based merchandising and operating control systems installed in late 1962 have now completed their first full year of operation. In as far flung an operation as ours, they are proving of tremendous value in pinpointing problems and motivating corrective action. Our buying and operating divisions have found these systems to be of invaluable assistance in scheduling the flow of merchandise and controlling our inventories and operating expenses. Moreover, the costs associated with these systems will be proportionately lower as sales continue to grow.

1963 HIGHLIGHTS

Fourteen additional Zayre self-service department stores were opened last year making a total of 61 such units in operation at year end.

The following events connected with our store opening program were noteworthy:

On August 15, 1963 the fiftieth Zayre store was opened in Portsmouth, Virginia.

During September 1963 the first Zayre store outside of the continental United States was opened in Rio Piedras, a suburb of San Juan, Puerto Rico.

During November 1963 we opened simultaneously four Zayre units, having a total area in excess of 300,000 square feet, in the metropolitan Washington, D. C. trading area. Pictures of these stores appear on page 5. These stores were previously operated by another organization, and were acquired under particularly favorable lease and fixture arrangements.

Zayre, in common with most self-service department stores, has in the past operated primarily on a cash and carry basis—credit being available only to finance the purchase of major appliances. In order to gain vital experience as to the potential for credit sales in our type of store, we have recently introduced

into ten stores in four market areas complete revolving credit programs for all merchandise. Further expansion of credit sales by Zayre Corp. will depend on the results achieved in the four test areas. As now constituted the charge plans require no cash investment by the Company.

We have made good progress in adding new specialized lines of merchandise and strengthening or expanding existing ones, so as to add character to our stores and make them more appealing to shoppers.

The Company has also continued to broaden its owned lines of merchandise. The new departments for infant's wear and domestics (linens, curtains, draperies and dry goods) have developed well. They are now operated in 14 stores and we will also handle these lines in all future stores. In the stores opened prior to 1963 these lines are handled by a leased operator.

In view of the strategic location of Zayre stores on major highways and the fact that most customers come to our stores by car, automotive service and accessories departments offer great sales potential. After all, what could be a more natural part of a shopping trip to Zayre than having your automobile serviced while you are making your purchases? Accordingly, we now operate 21 complete automobile service and sales centers.

The Company also operates 46 women's and children's apparel specialty stores under the names Bell Shops, Nugents and Grays. With the continued growth of Zayre stores, this division now accounts for approximately 6% of total volume.

FINANCIAL POSITION

Net worth per share increased to \$5.72 from \$4.99, and the return on average invested capital, last year, was 13.6%.

Net working capital of Zayre Corp. and Operating Subsidiaries increased to \$14,255,471 compared with \$10,053,231 a year ago, reflecting the increased financial strength of your company.

In December 1963, Zayre Corp. concluded arrangements

with institutional investors for additional long-term unsecured financing totalling \$2,500,000 to provide funds for future expansion and possible acquisitions. This financing was in the form of 5½% 15 year subordinated notes due 1968 to 1979. In connection with this loan, your company issued warrants for the purchase of 100,000 shares of common stock. (See note H of Notes to Financial Statements which describes these warrants in detail.)

Zayre Corp. also took the balance of \$500,000 5.8% unsecured long-term financing which was available to us from two major insurance companies under a commitment arranged in January 1963.

As at the end of the fiscal year, Zayre Corp. had a total unsecured long term debt of \$7,000,000 due to institutional lenders. This commitment emphasizes the high regard and confidence which sophisticated institutional investors have for your company.

THE FUTURE

Your management, prepared for a new surge of growth and prosperity, is optimistic about the profit outlook. Our sales thus far this year have been excellent. Virtually all economists have predicted a banner year for retailing, based upon record levels of disposable income and the recent tax cut, a great part of which they anticipate will go into consumer goods.

Moreover, "discounting" continues to be the fastest growing sector of retailing. In 1964 we shall see a continuation of the trend to more selectivity on the part of the large operators when choosing sites for new units. Thus, this growth will accrue particularly to the benefit of the units already in existence.

Our own plans for 1964 call for the opening of five to seven new Zayre stores. We will also continue to be alert for special situations which would permit us to acquire existing stores under favorable terms.

This policy will assure continued reasonable growth, and at the same time permit us to further certain plans initiated in 1963 to improve profitability. The full effect of these programs which are designed to improve gross margins, control and reduce operating expenses, and increase sales through aggressive promotional efforts will be felt in the current year.

Our personnel executives and store managers have done a remarkable job over the past several years in recruiting, training and integrating within our organization thousands of new employees. Our intensive Manager Training Program has now graduated some 125 executives and continues to be a vital source of management talent. This year a program of Management Seminars has been instituted to further the progress of key store personnel. Groups of store managers will be brought to our Natick headquarters for week-long refresher courses.

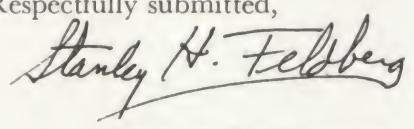
In order to broaden the trading market and obtain better recognition for our common stock, the Board of Directors has voted to obtain a listing on the American Stock Exchange. Accordingly we have filed a formal listing application with that Exchange. If this application is approved, we expect our common stock to be listed in approximately one month.

One of Zayre Corp.'s major resources is its employees, who totaled approximately 5,100 at the end of the year. Attracting, keeping and encouraging competent people is a primary objective of management. Once again, we wish to thank our employees for their efforts in behalf of the Company.

Respectfully submitted,



MORRIS FELDBERG,
Chairman



STANLEY H. FELDBERG,
President

April 23, 1964

ZAYRE CORP. STORES

At the end of fiscal 1964 Zayre Corp. operated 61 self-service department stores in 18 states in the eastern half of the nation and Puerto Rico.

Zayre seeks to locate two or more stores in each major metropolitan market it serves. This practice achieves operating and advertising economies and makes the Zayre name better known in these markets.

Boston and Chicago are examples of major metropolitan market areas in which Zayre Corp. has penetration in depth. See accompanying maps.

Florida — MIAMI (3) Coral Way, Hialeah, North Miami Beach — TAMPA

Georgia — ATLANTA (2) Stewart Avenue, Buford Highway

Illinois — CHAMPAIGN — CHICAGO (5) Des Plaines, Forest Park, Joliet, Markham, Oaklawn — ROCK ISLAND

Indiana — INDIANAPOLIS (2) Pendleton Pike, South East Highway

Kentucky — LOUISVILLE (2) Bardstown Road, Dixie Highway

Maine — BANGOR — PORTLAND — PRESQUE ISLE

Maryland — DISTRICT OF COLUMBIA (2) Silver Springs, Wheaton

Massachusetts — BOSTON (8) Beverly, Braintree, Cambridge, Medford, Natick, Roslindale, Saugus, Woburn — FALL RIVER — HYANNIS — LOWELL — PITTSFIELD — SPRINGFIELD (2) Boston Road, Agawam — WORCESTER

Michigan — KALAMAZOO

Minnesota — MINNEAPOLIS

New Hampshire — MANCHESTER

Ohio — CINCINNATI (2) Paxton Avenue, Princeton Pike — CLEVELAND (3) North Olmsted, Ridge & Denison, Warrensville Heights — COLUMBUS

Pennsylvania — PITTSBURGH (2) McKnight Road, Monroeville — WILKES-BARRE

Puerto Rico — RIO PIEDRAS

Rhode Island — EAST PROVIDENCE

South Carolina — COLUMBIA

Tennessee — KNOXVILLE — MEMPHIS — NASHVILLE (2) Gallatin Road, Murfreesboro Road

Virginia — DISTRICT OF COLUMBIA (2) Alexandria, Falls Church — PORTSMOUTH — RICHMOND

Wisconsin — RACINE

Apparel Specialty Stores

Connecticut — MERIDEN — NORWICH

Maine — AUGUSTA — BIDDEFORD — LEWISTON — PORTLAND — ROCKLAND — SKOWHEGAN

Massachusetts — BOSTON — FALL RIVER — FRAMINGHAM — GLOUCESTER — LAWRENCE (2) — LOWELL — LYNN — MALDEN — PITTSFIELD — QUINCY — SALEM — SPRINGFIELD — TAUNTON — WOBURN — WORCESTER

New Hampshire — BERLIN — CONCORD — KEENE — MANCHESTER (2) — NASHUA — ROCHESTER

New York — AUBURN — ELMIRA — ENDICOTT — GLENS FALLS — JAMESTOWN — KINGSTON — NEWBURGH — NIAGARA FALLS — OLEAN — POUGHKEEPSIE — WATERTOWN

Pennsylvania — ERIE

Rhode Island — NEWPORT — PAWTUCKET

Vermont — NEWPORT

Projected Openings in 1964

Florida — JACKSONVILLE

Illinois — CHICAGO — SPRINGFIELD

Indiana — INDIANAPOLIS

Tennessee — CHATTANOOGA



BOSTON Zayre Corp. originated in this area and now operates eight stores.



CHICAGO Zayre Corp. presently operates five stores and by summer 1964 will add one additional unit.

THE JONESES SHOP AT ZAYRE

The Joneses, like more than a million other modern suburban families, satisfy all of their apparel, home and recreation needs at Zayre.

The Joneses appreciate the many conveniences offered by Zayre, including broad selections of fashion-right merchandise, self-service, wide aisles, check-out counters, air conditioning, and evening store hours which facilitate family shopping. They feel at home in the easy informality of a Zayre store.

The Joneses get traditional department store selection and quality—at sharply reduced prices. They know their shopping dollars buy more at Zayre.

The Joneses have no parking problems at Zayre. Ample free parking and easy access from main highways make their visit to Zayre a trouble free adventure in shopping pleasure. Downtown shopping trips are no longer necessary.

Join the Joneses as they make one of their regular shopping trips to the Zayre store in their city



The Joneses arrive at Zayre. The store is conveniently located and has ample free parking.



Mrs. Jones plans to buy her Spring wardrobe at Zayre. With Susan's approval, her first purchase is a skirt, chosen from an extensive assortment.



Fashion conscious Mrs. Jones selects a Spring coat. It is a classic black and white plaid with a velvet collar in a laminated knit fabric.



Mother and Susan can't resist the attractive hats at the millinery bar — hundreds to choose from.



Mother completes her Spring ensemble with a new purse. Fashion accessories all moderately priced.



Mr. and Mrs. Jones select new cafe curtains for their dining area. Attractively displayed, choice is easy.



Mrs. Jones assists her husband in selecting several men's dress shirts.



Mother approves Susan's selection of a new Spring dress — beautifully styled.



Mrs. Jones helps her husband buy a pair of casual shoes—real savings here.



After shopping in the toy department, Tommy decides on a fishing rod.



Mr. and Mrs. Jones agree on the future purchase of a color television set.



While they shop, their automobile is serviced at the modern Zayre automotive service center adjoining the store.



Mrs. Jones selects a modern electric appliance to ease kitchen drudgery.



The family's purchases are speedily tallied and wrapped at the convenient central check-out counter. Their shopping tour is a happy success.

Zayre is proud of its contribution to better living standards in America. The Zayre one-stop shopping concept enables our customers to satisfy all their apparel, home, and recreation needs conveniently, economically, speedily.



ZAYRE CORP. and Operating Subsidiaries

SUMMARY OF PROGRESS

Fiscal Year Ended January 1964 1963 1962 1961 1960 1959 1958

OPERATING DATA:		1964	1963	1962	1961	1960	1959	1958
Net Sales (excluding leased department sales)	\$122,810,651	\$96,431,611	\$59,165,743	\$41,942,064	\$31,372,742	\$22,001,541	\$18,516,155	
Earnings Before Federal Income Taxes(1)	2,079,179	2,359,594	2,003,736	1,062,697	903,148	517,338	201,776	
Net Income(1)	1,222,879	1,374,494	1,126,736	541,697	441,148	295,338	143,776	
Earnings Per Share(1) (2)	.73	.82	.75	.36	.29	.20		\$.10
STORES IN OPERATION:		1964	1963	1962	1961	1960	1959	1958
Zayre	61	47	27	14	11	6		4
Apparel Specialty	46	48	52	59	61	64		70
FINANCIAL POSITION:		1964	1963	1962	1961	1960	1959	1958
Current Assets	\$ 25,719,556	\$18,288,036	\$11,467,893					
Current Liabilities	11,464,085	8,234,805	6,550,961					
Working Capital	14,255,471	10,053,231	4,916,932					
Stockholders' Equity	9,616,295	8,393,416	4,957,270					
Stockholders' Equity Per Share	\$5.72	\$4.99	\$3.32					

(1) Through fiscal 1963, income includes pro-forma adjustments which give effect to the ownership of assets acquired from Feldberg Five Fund on March 1, 1962.

(2) Earnings per share for fiscal 1964 and 1963 are based on the 1,681,500 shares outstanding at year end, and for prior periods, on 1,506,500 shares.



ZAYRE CORP. and Operating Subsidiaries

CONSOLIDATED BALANCE

ASSETS	<u>Jan. 25, 1964</u>	<u>Jan. 26, 1963</u>
CURRENT ASSETS:		
CASH	\$ 2,104,930	\$ 2,387,273
U. S. TREASURY BILLS	999,525	1,230,132
ACCOUNTS RECEIVABLE	1,431,792	1,230,132
MERCHANDISE INVENTORIES, at the lower of cost (retail method) or market	20,302,914	14,131,402
PREPAID EXPENSES	880,395	539,229
TOTAL CURRENT ASSETS	<u>25,719,556</u>	<u>18,288,036</u>
 EQUITY IN ZAYRE LEASING CORPORATION, wholly owned unconsolidated subsidiary (note B)	 652,088	 326,630
 PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS, at cost	 1,938,653	 2,380,461
Less accumulated depreciation and amortization	1,092,957	998,628
	<u>845,696</u>	<u>1,381,833</u>
 PREOPENING EXPENSES, at amortized cost (note D)	 409,675	 504,892
 DEFERRED CHARGES AND OTHER ASSETS	 552,878	 499,964
	<u>\$28,179,893</u>	<u>\$21,001,355</u>

The accompanying notes are an integral part of the financial statements.

SHEETS

LIABILITIES	<u>Jan. 25, 1964</u>	<u>Jan. 26, 1963</u>
CURRENT LIABILITIES:		
NOTES AND CURRENT INSTALMENTS OF LONG-TERM DEBT	\$ 83,120	\$ 69,327
ACCOUNTS PAYABLE	6,950,269	4,175,246
SALES TAXES, PAYROLL WITHHOLDINGS, AND COLLECTIONS FOR LEASED DEPARTMENTS	1,850,403	1,346,925
ACCRUED EXPENSES	1,935,763	1,781,890
FEDERAL INCOME TAXES	644,530	861,417
TOTAL CURRENT LIABILITIES	11,464,085	8,234,805
LONG-TERM DEBT, exclusive of current instalments (note C)	6,956,642	4,220,336
DEFERRED FEDERAL INCOME TAXES (note D)	142,871	152,798
 STOCKHOLDERS' EQUITY		
COMMON STOCK, par value \$1, authorized 3,000,000 shares, issued and outstanding 1,878,828 shares (notes G and H)	1,878,828	1,878,828
ADDITIONAL PAID-IN CAPITAL	2,347,509	2,347,509
RETAINED EARNINGS (note C)	5,679,958	4,457,079
Less 197,328 shares of stock in treasury, at cost	9,906,295	8,683,416
	290,000	290,000
	9,616,295	8,393,416
	<u>\$28,179,893</u>	<u>\$21,001,355</u>

The accompanying notes are an integral part of the financial statements.



ZAYRE CORP. and Operating Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

Net sales (excluding leased department sales)	
Rentals from leased departments, net of estimated allocated store expenses	
Other income	
Cost of sales and operating expenses	
Depreciation and amortization	
Interest expense	
Income of Zayre Leasing Corporation, wholly owned unconsolidated subsidiary, before provision for federal income taxes	
Income before provision for federal income taxes	
Provision for federal income taxes (notes D and E):	
Zayre Corp. and Operating Subsidiaries (\$18,800 and \$36,600, respectively, deferred)	657,100
Zayre Leasing Corporation (\$197,400 and \$73,800, respectively, deferred)	199,200
Pro forma adjustment (note A)	856,300
Net income	12,338
†After charges for:	
Depreciation	\$ 1,222,879
Interest	\$ 1,374,494

<i>Fiscal Years Ended</i>	
<i>Jan. 25, 1964</i>	<i>Jan. 26, 1963 (Note E)</i>
\$122,810,651	\$96,431,611
1,354,568	1,085,588
328,887	321,950
<u>124,494,106</u>	<u>97,839,149</u>
121,674,976	94,854,832
874,408	769,498
390,200	210,593
<u>122,939,584</u>	<u>95,834,923</u>
1,554,522	2,004,226
524,657†	334,030†
<u>2,079,179</u>	<u>2,338,256</u>
657,100	868,700
199,200	107,400
<u>856,300</u>	<u>976,100</u>
	12,338
<u>\$ 1,222,879</u>	<u>\$ 1,374,494</u>
\$ 1,120,895	\$ 683,290
455,474	291,582

The accompanying notes are an integral part of the financial statements.

**CONSOLIDATED STATEMENTS
OF RETAINED EARNINGS**

	<i>Fiscal Years Ended</i>	
	<u>Jan. 25, 1964</u>	<u>Jan. 26, 1963</u> (<i>Note E</i>)
Balance at beginning of year	\$4,457,079	\$3,094,923
Net income, excluding pro forma adjustment in fiscal 1963	1,222,879	1,362,156
Balance at end of year	<u>\$5,679,958</u>	<u>\$4,457,079</u>

**CONSOLIDATED STATEMENTS
OF ADDITIONAL PAID-IN CAPITAL**

Balance at beginning of year	\$2,347,509	\$ 463,195
Excess of amount of demand obligation purchased over par value of 14,676 shares of common stock issued in exchange therefor		235,164
Excess of net cash proceeds over par value of 175,000 shares of common stock sold		1,649,150
Balance at end of year	<u>\$2,347,509</u>	<u>\$2,347,509</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the parent company and all operating subsidiaries, all wholly owned. The parent company's investment in Zayre Leasing Corporation, wholly owned unconsolidated subsidiary, is included in the accompanying financial statements at an amount equal to its underlying net assets as set forth in note B below.

The pro forma adjustment to net income of fiscal 1963 gives retrospective effect to the ownership of assets acquired from Feldberg Five Fund on March 1, 1962.

B — SUMMARY OF NET ASSETS OF ZAYRE LEASING CORPORATION

Furniture and fixtures and leasehold improvements, net of accumulated depreciation and amortization of \$2,313,390	\$10,270,481
Equipment promissory notes, interest 5% to 5 3/4%, maturing 1965 to 1968, including \$1,651,462 due within one year	9,681,164
Cash	589,317
Other assets	118,632
Accounts payable, including \$47,434 due to Zayre Corp. and operating subsidiaries, and accrued expenses	593,185
Deferred federal income taxes (notes D and E)	1,182,502
Net assets—paid-in capital of \$100,000 and retained earnings	261,397
	269,017
	530,414
	\$ 652,088

Zayre Leasing Corporation has commitments of approximately \$500,000 for the purchase of furniture and fixtures for new Zayre stores.

C — LONG-TERM DEBT

Long-term debt, exclusive of current instalments, at January 25, 1964 consisted of the following:

6% promissory note, payable \$60,000 semi-annually commencing October 1, 1964, balance due April 1, 1976	\$1,440,000
5.8% promissory notes, payable \$250,000 annually commencing January 31, 1967 through January 31, 1978	3,000,000
5 1/2% subordinated notes, payable \$200,000 annually commencing January 15, 1968, balance due January 15, 1979	2,500,000
Other long-term debt	16,642
	\$6,956,642

The 5 1/2% subordinated notes are subordinated to the 6% and 5.8% promissory notes and to the other long-term debt. A description of the stock purchase warrants issued to the holders of the subordinated notes is set forth in note H.

Under restrictive provisions of the agreements governing long-term debt, only \$673,000 of retained earnings was available for dividends at January 25, 1964.

D — DEFERRED FEDERAL INCOME TAXES

Deferred federal income taxes arise from (a) the use of an accelerated depreciation method for tax purposes, whereas the straight-line method is used for financial reporting purposes; and (b) the deduction for tax purposes of preopening expenses in the year in which a store opens, whereas such expenses are amortized over a 12-month period for financial reporting purposes.

E — DEPRECIATION AND INVESTMENT CREDIT

Depreciation of furniture, fixtures, and equipment in Zayre stores was formerly computed on the basis of estimated useful lives averaging less than ten years. The Company's experience now indicates that certain of these assets, almost all of which are owned by Zayre Leasing Corporation, have useful lives longer than originally anticipated. Effective with fiscal 1963, depreciation on all furniture, fixtures, and equipment in Zayre stores is computed on the basis of a ten-year life. The financial statements for fiscal 1963 have been restated accordingly, thereby increasing net income for that year by \$47,800.

The recently enacted Revenue Act of 1964 liberalized the Investment Credit provisions of the Internal Revenue Code to permit retention of the full benefit of the Investment Credit utilized as a reduction of federal income taxes. In fiscal 1963, the companies had reduced current federal income tax expense by 48% of the currently usable portion of the Investment Credit. Giving effect to the aforementioned Investment Credit revision, the financial statements for fiscal 1963 have been restated to reduce the provisions for current and deferred income taxes by 100% of the usable Investment Credit applicable thereto, increasing net income for that year by \$110,300.

In the aggregate, \$194,400 of available Investment Credit was used to reduce provisions for federal income taxes in fiscal 1964 compared to \$160,800 in fiscal 1963. Approximately \$232,000 of unused Investment Credit is available for reduction of future taxes.

F — COMMITMENTS

Under long-term leases, expiring from 1967 to 1986, the companies are committed to pay minimum annual rentals of approximately \$6,700,000, exclusive of, in many instances, real estate taxes, insurance, maintenance and additional rentals based on sales. Additional minimum annual rentals of approximately \$600,000 will be payable under long-term leases for stores not yet opened.

Fixed annual rentals of approximately \$2,300,000 are payable to Zayre Leasing Corporation, wholly owned unconsolidated subsidiary, under long-term leases, expiring principally in 1971, for the use of equipment, fixtures and leasehold improvements.

The parent company has guaranteed directly or indirectly the payment of Zayre Leasing Corporation's equipment promissory notes (see note B).

G — STOCK OPTIONS

Under its Restricted Stock Option Plan, the Company has reserved 50,000 shares of its common stock for issuance to key employees. Options for the purchase of 23,600 shares at \$11.40 per share (95% of market price on the date of grant in 1962) were outstanding at January 25, 1964. Beginning September 26, 1963, the options are exercisable as to 20,400 shares in four equal cumulative annual instalments, and as to 3,200 shares in two equal cumulative annual instalments. No options have been exercised under the plan.

H — STOCK PURCHASE WARRANTS

In December, 1963, the Company issued to the holders of its 5½% subordinated notes Class A and Class B warrants for the purchase of 62,500 and 37,500 shares, respectively, of its common stock. Through July 15, 1971, the purchase price at which they are exercisable is \$10 for Class A warrants and \$12.50 for Class B warrants. Both classes are exercisable thereafter at \$15 per share through January 15, 1979, when they expire. The exercise prices are subject to antidilution provisions and the number of shares which can be purchased under the warrants is subject to adjustment for recapitalizations and similar events. The Company has reserved 100,000 shares of its authorized common stock for the warrants, none of which have been exercised.

LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS

COOPERS & LYBRAND
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

*To the Board of Directors of
ZAYRE CORP.*

We have examined the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries as of January 25, 1964, and the related consolidated statements of income, retained earnings, and additional paid-in capital for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination of the financial statements for the fiscal year ended January 26, 1963, which have been restated, with our concurrence, as explained in note E of notes to consolidated financial statements.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of Zayre Corp. and Operating Subsidiaries at January 25, 1964 and January 26, 1963, and the consolidated results of their operations for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

Boston, Massachusetts

March 31, 1964

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MORRIS FELDBERG	<i>Chairman</i>
MAX FELDBERG	<i>Vice Chairman</i>
ABRAM BERKOWITZ	<i>Partner, Ropes & Gray</i>
STANLEY H. FELDBERG	<i>President</i>
SUMNER L. FELDBERG	<i>Treasurer</i>
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MORRIS NATELSON	<i>Partner, Lehman Brothers</i>
BURTON S. STERN	<i>Vice President</i>

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STANLEY H. FELDBERG	<i>President</i>
SUMNER L. FELDBERG	<i>Treasurer</i>
MILTON L. LEVY	<i>Vice President—Apparel Specialty Stores</i>
BURTON S. STERN	<i>Vice President—Senior Merchandise Manager</i>
JOEL JACOBSON	<i>Vice President—Store Operations</i>
ANNA GOLDSTEIN LEVITMAN	<i>Vice President—Senior Merchandise Manager</i>
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PAUL KWASNICK	<i>Assistant Treasurer</i>
NEWTON A. LANE	<i>Secretary</i>
NORMAN LENOX	<i>Assistant Secretary</i>

TRANSFER AGENTS

State Street Bank and Trust Company, Boston, Massachusetts
Irving Trust Company, New York, New York

REGISTRARS

The First National Bank of Boston, Boston, Massachusetts
The Chase Manhattan Bank, New York, New York

GENERAL COUNSEL

Nathanson & Rudofsky

SPECIAL COUNSEL

Ropes & Gray

AUDITORS

Lybrand, Ross Bros. & Montgomery
Goodman & Goodman

DISTRIBUTION CENTERS

Framingham, Mass. • Natick, Mass. • New York, N. Y.

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